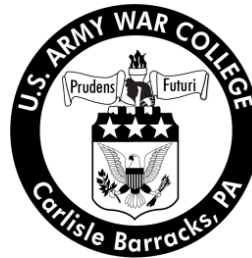


New Generation of Military Members Provides Opportunity to Reform Military Benefits

by

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United States Air National Guard



United States Army War College
Class of 2013

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Reform Military Benefits**

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Abstract

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The military competes for the personnel needed to maintain a highly effective, professional, all-volunteer force. Though, unique leadership and occupational opportunities, and a sense of service should be the motivation for members to join and serve, military benefits have a role in competing for members. Military benefits need to be reformed due to fiscal restraints. Achieving the financial reductions that also allow the military to remain competitive requires a comprehensive approach. The generational characteristics of the Millennial generation should be considered when proposing benefit reform. The values of the Millennial generation provide an opportunity to sustain front-loaded, family focused programs in exchange for reforming the costly long-term, defined benefit retirement. A second order effect of proposals that reform the defined benefit 20-year retirement distribution immediately upon retirement may be to provide the opportunity to increase flexibility in personnel management. Current fiscal challenges and need to compete for the service of the Millennial generation creates the impetus and opportunity to reform the current 20-year defined-benefit retirement program in a comprehensive and positive way.

New Generation of Military Members Provides Opportunity to Reform Military Benefits

The success of the United States military in the future will rely on being able to recruit and retain personnel with the qualities necessary to maintain a professional fighting force. The military profession provides unique opportunities to lead and serve. In addition to the draw of these opportunities, compensation and benefits are an important factor in recruiting and retaining quality people. Changes to current compensation and benefits are required due to a decreasing defense budget and the increases in cost per soldier. In the Chairman's Strategic Direction to the Joint Force dated 6 February 2012, the first Key Effort in the section titled *Keep Faith With Our Military Family* supports reforms to military compensation and benefits "to produce a more affordable system that honors commitments and improves readiness."¹ Changes to compensation and benefits must be made in a way that can be made attractive to recruits and current members so that the military can compete for their services. The demographic and cultural differences of the existing and future generations should be emphasized in order to make comprehensive and effective changes.

The cost per soldier is becoming cost prohibitive. "Military personnel costs have nearly doubled since fiscal year 2001 and now (2012) consume one-third of the Pentagon's base budget – about \$180 billion per year. If these costs are allowed to continue rising at their current rate, they will eat through the entire defense budget by FY 2039."² The personnel budget is primarily composed of pay, health care and retirement. "If left unreformed, increasing expenses for each of these three programs will eat up a growing share of the defense budget, diverting funds from other critical national security initiatives such as training and modernization."³ Because of the

strenuous duty required of military members and their families, it is important that the range of benefits being offered remain attractive to recruits and military members. The challenge is to provide these benefits in a financially responsible and viable way. The focus should be on maintaining and modernizing front-loaded benefits - those benefits provided and funded for members while they are actively serving. A majority of these programs benefit families. Large cost savings can be realized by reforming long-term benefits – those benefits provided and funded for members for an indefinite amount of time after their active service has concluded.

Compensation and benefits should be viewed as a total package that can be funded and managed to be competitive in the recruiting and retaining of quality personnel. Benefit systems are more cost-effective if they are front-loaded. Front-loaded compensation saves money “because, members discount future benefits at a higher rate than the government discounts future costs. A dollar paid today is worth a dollar to the service member and costs a dollar to the government. But a dollar paid 10 years from now is worth less to the service member today than the amount the government must implicitly invest today to have a dollar to pay in 10 years. Because each dollar the government expends today is worth more to the service member the sooner it is paid relative to its cost to the government, front-loaded compensation is more cost-effective.”⁴ Front-loaded compensation and benefits must be evaluated and managed to ensure that they are packaged to be attractive to recruits and service members the military must retain.

The military establishment must continue to innovate and develop effective recruiting incentives that will endure both good and bad economic times. A large part of

these incentives will be benefits that are in addition to pay. As the military is decreasing in size and requires highly qualified personnel to fill the key roles to maintain its effectiveness at a lower cost, careful and prudent changes to military benefits must be made. It is natural and important to have the recruiting and retention specialists evaluate generational trends and develop effective marketing to recruit qualified personnel and to have the financial experts evaluate the budgetary concerns and solvency of future expenditures. In order to create enduring and effective change, it is vital to be comprehensive and be aware of generational trends when proposing benefit changes. This correlation of the two activities may seem obvious, but comments and commentaries by senior leaders in military personnel management and by senior consultants in the military budget arena indicate that these activities are being conducted independently. The proposals outlined in this paper to reform military benefits immediately based on fiscal and generational characteristics represent an effective way to prepare for future recruiting challenges and to improve the future of military personnel costs.

The generational characteristics of the current and incoming military members provide an opportunity to maintain and modernize front-loaded benefits that are family-focused in exchange for making cost-effective changes to the costly, long-term defined benefit retirement system. The current national fiscal crisis, the reduction of military forces, and the demographics of the current and future military members from the millennial generation (those born roughly between 1980 and 2000) provide an opportunity to make changes to the military benefit system now. Maintaining front-loaded benefit systems, such as educational benefits and pay and family support

benefits would be attractive to the Millennials because of their generational characteristics.

The incoming generation has views and tendencies that are significantly different than the views and tendencies of the current generation who are currently in positions of power and influence in government and the military. These differences and shifts in generational characteristics should not be discounted. An example of this shift in mindset and priorities is exhibited in the number of teenagers of driving age not pursuing getting a license to drive. According to the Federal Highway Administration, only 30 percent of 16 year olds got their licenses in 2008.⁵ This is a radical shift from previous generations where a license was highly desired because it represented freedom and the ability to facilitate social interactions with friends and peers. In fact, driver's licenses have dropped at least 15% for 16, 17 and 18 year olds since 1983.⁶ The teenagers of driving age today can achieve their social goals and interactions with friends through social media and do not need to coordinate driving to meet somewhere as past generations where inclined to do. It is this kind of radically different thinking that should prompt decision-makers to carefully consider the demography of Millennials in order to make changes to the benefit systems in a prudent way so as to continue to attract young people to serve while maintaining fiscal balance within the force.

The 2010 Pew Report on Millennials opens with “generations, like people, have personalities, and Millennials – the American teens and twenty somethings who are making the passage into adulthood at the start of the new millennium – have begun to forge theirs: confident, self-expressive, liberal, upbeat and open to change.”⁷ Millennials have a positive outlook for the future. The Pew Report found that “they are more upbeat

than their elders about their own economic futures as well as about the overall state of the nation.”⁸ “Among Millennials who say they currently don’t have enough income, 89% believe they will have enough in the future.”⁹ “In the third annual “Workplace Report on Retirement Planning” published by CIGNA Retirement & Investment Services in 2004, more than half of the Millennials surveyed said their top financial concern is meeting everyday expenses or saving for a new house and car. When asked to describe their retirement-planning state of mind, nearly half – 49 percent – of the Millennials surveyed chose the response, “I’m living for today.”¹⁰ The tendency of this generation to focus on the near-term financially and their financial optimism creates an opportunity to make changes to costly long-term military benefits in exchange for strengthening more cost-effective, front-loaded benefits without jeopardizing the recruitment of future generations and the ability to retain the Millennials.

The front-loaded benefits that would be valued by Millennials are education assistance, pay, health care and services that benefit military families. Educational assistance and pay are unique and manageable within the Department of Defense and should be considered as negotiable. Therefore, educational assistance and pay can be maintained and reformed in ways that produce a significant incentive for recruiting and retention and maintain front-loaded payout characteristics while maintaining fiscal balance. The current state of educational assistance and pay within the military provides an opportunity to leverage these benefits against change to the retirement system. Revisions to health care are too complicated for this discussion, and changes should be made commensurate with federal legislation and corporate trends and improvements.

Millennials value education. They are on target to become the most educated generation, though they have not attained this target as of 2010. As of 2012, “only about one-in-five Millennials (19%) are college graduates. An additional 26% are currently in school and plan to graduate from college, while an additional 30% are not in school but expect to someday earn a college degree.”¹¹ The Pew Report found that “too little money and too little time”¹² were factors that were holding this generation back. More than a third (36%) say that they cannot afford school. The GI Bill benefit is well situated to meet this goal and will be a powerful incentive to many incoming military members. The adoption of the Post 9-11 GI bill is very attractive to older military personnel born between 1960 and 1980 commonly referred to as Generation X. Generation X’ers have a tendency to want to provide for their children and the Post 9-11 GI bill will help retain these senior individuals. This program will also be attractive to the Millennials as they progress through their career due to the strong tendency to want to be “good parents.” This benefit should be maintained in light of the current and future generations and also with emphasis on the benefit being a front-loaded paid benefit.

Assessing the adequacy of military pay compared to civilian pay is challenging. Military pay includes a wide range of non-monetary benefits that are not available or commiserate with civilian employers.¹³ In 2006, “the average service member earned \$5400 more in cash compensation than a comparably qualified civilian counterpart, and the average officer earned \$6000 more than a civilian with similar education and experience.”¹⁴ In 2012, the level of military cash compensation continues to outpace civilian salaries of comparable occupations and experience. This current cash compensation advantage offers an opportunity to leverage this short-term benefit in

exchange for reforming the long-term defined benefit retirement system. It should be emphasized that there is a debate over the relationship of pay and military recruiting and retention. It is true that recruiting and retention are not directly related to increasing pay. “Many long-time observers seem to feel that money alone cannot keep a person in the military for a full career if the person does not like the military culture; they assert that the lifestyle is too demanding and too arduous for most. At the same time, it is argued that people can be driven out of the military if their compensation and living standards are not at least somewhat close to those of their demographic and educational counterparts in civilian life.”¹⁵ Asch and Warner found that the “Army could achieve the same retention patterns as under the current system, but at less cost, by increasing basic pay across the board. Such a front-loaded compensation system reduces cost, because members discount future benefits at a higher rate than the government discounts future costs.”¹⁶ Military pay should be based on achieving adequate recruiting and retainability within the force. Some have suggested that the discussion or analysis of a pay gap is unwarranted and not a good guide to arriving at sound policy. The same proponents of this approach “argue that the key issue is, or should be, not comparability of military and civilian compensation, but the competitiveness.”¹⁷ This approach allows the military to leverage the intangible benefits of military service such pride of service, patriotism, and self-sacrifice. This approach also helps leverage moderate or no increases to pay during difficult economic times in the civilian sector. It needs to be noted that it may be necessary to increase pay above the civilian sector during times where recruitment and retainability drops below acceptable levels. In the event that an increase in pay would be necessary, it would be

better to employ bonuses and other service benefits that could be paid in the near-term as a front-loaded benefit. An increase to the military to pay chart would be a permanent increase and have an effective on long-term benefits linked to pay at retirement.

Benefits such as educational assistance, pay, and post services such as military exchanges, youth services and childcare are family-focused and aimed at improving the quality of life and cost effectiveness of services aimed at family care and costs.

Continued investment in these benefits is consistent with the family orientation of the Millennials. “About half (52%) say being a good parent is one of the most important things to them.”¹⁸ These benefits are realized in the near-term and match the desires and characteristics of the Millennials. Enhancements to these systems could be used effectively to recruit and retain personnel while being more cost effective for the government. The trade-offs for enhancements to these systems would be to modify the current 20-year defined benefit retirement system.

The current environment provides an opportunity to challenge the current retirement system. “For more than 30 years, the military retirement system, in particular, its central feature of allowing career personnel to retire at any age with an immediate annuity upon completing 20 years of service has been the object of intense criticism and equally intense support among military personnel, politicians, and defense manpower analysts.”¹⁹ Many senior military leaders view the retirement benefits offered to military members after 20 years of service as the “golden nugget” and essential for military recruitment and retention. This retirement system is cost prohibitive in the current fiscal environment. There are two characteristics of the retirement system that are escalating costs. These characteristics are the guaranteed defined benefit payments that are paid

to the member for life and the initiation of these payments at the immediate conclusion of a 20-year career. Realizing savings from changes to the retirement system could be achieved while still providing a competitive retirement benefit. Proposed reforms change the distribution of retirement pay, offer options and flexibility in participation and portability of the benefit, and create a system where more military members could benefit from the retirement system. Additionally, changing the 20-year paradigm provides an opportunity to reshape military force management and the military career path by creating a different view on retainability throughout a career while still providing a retirement benefit.

Proposed changes to the current retirement system are not well received by most military members and leadership due to the current perception of the benefit being critical to maintaining a quality all-volunteer force. Some “have strongly defended the existing system as essential to recruiting and maintaining sufficient high-quality career military personnel who could withstand the rigors of arduous peacetime training and deployments as well as war.”²⁰ Without this “pot of gold at the end of the rainbow,” it is argued, that too few personnel would be willing to put up with the great stresses of a military career.²¹ The current leadership within military and Department of Defense are resistant to change. Secretary Panetta told lawmakers in October of 2011 that there are no immediate plans to change the military’s retirement system. In addition, Secretary Panetta said that any future changes will not affect those currently serving. “I’ve made it very clear that we can’t break faith with those in the service. We’ve made a promise to those people who are on duty and we’re going to provide a certain level of retirement. We’re not going to back away from that. We’ve got to maintain that promise. Those

people have been deployed time and time again. They've put their lives on the line on the battlefield. And we're not – we're not going to pull the rug out from under them. We're going to – we're going to stand by the promise that was made to them.²² These commonly held views on retirement are anchored in historical and former generational contexts.

There are benefits to the current 20-year retirement system. Beyond the financial benefit of a defined benefit income at a relatively early age, one of the benefits of the current system is that it “supposedly prevents the armed forces from being saddled with over-age and unfit officers and NCO's.”²³ Another benefit is maintaining the opportunity for promotion by having those near or at the top to retire at 20 years. An increase in personnel remaining in their positions beyond 20 years would slow the promotion process and, in some cases, cause some personnel to be forced out of the military due to lack of positions. There is also a perceived danger that longer terms for generals could result in “stultification and stodginess in the senior uniformed leadership; an excessive slowing of promotions, as more people stay on active duty in the same grade for longer periods of time; and, hence, the Administration and political party in power.”²⁴

In testimony, General Dempsey agreed that changes to the military retirement programs may be necessary, but insisted that the nature of military service – and the unique requirement to move several times over the course of a career – mean military retirement programs should not be compared to or modeled on civilian federal worker retirement accounts. “We can figure it out. We need time to do so. If it is unaffordable, we'll react. But I want to reject outright the idea that somehow my retirement program....should be compared to someone else's.”²⁵ This comment resonates with

military members and some within Congress, but it is not consistent with long-term financial responsibility or with maintaining trust with the public. General Dempsey has stated publically that maintaining the trust of the public is critical to the military's ability to secure the public funding and support necessary to be successful. Part of maintaining this public support should include military compensation and military retirement that is commiserate with civilian plans. Many of the current civilian retirement plans and models could be modified slightly to create long-term cost savings as well as an improved benefit for many military members.

There are lessons to be learned by looking at civilian retirement trends and reform efforts. The number of civilians receiving a pension is decreasing. In 1975, of employees with a retirement plan at work, 88% of private sector workers were covered by a defined benefit pension; by 2005, that number dropped to 33%. In 2005, among those with a workplace retirement plan, 98% of public sector employees and 33% of private sector employees had a defined benefit pension. In 2007, 32% of employees of firms with 100 or more workers had a defined benefit pensions compared to only 9% for those in companies with less than a 100 workers. A 2008 survey found that 72% of employees cite retirement benefits as an important factor in their loyalty to their employer. Not surprisingly, a 2004 survey found that 84% of defined benefit sponsors believe their pension plan has an impact on employee retention.²⁶ Research from the private sector indicates that defined benefit pension plans are good for employees because it provides security in retirement. "It is also good for employers because it provides a cost-efficient and highly effective recruitment and retention tool. America's newest workers are far more likely than older workers to say they are likely to switch

careers or to change employers sometime in their work lives.”²⁷ This emphasizes a desire for portability. Some suggestions to reverse this trend in the private sector are: Creating an avenue for third-party sponsorship of the defined benefit plan, amending regulations so that funding is less volatile, finding ways to make it easier for employees to contribute to plan funding, and designing plans so that they are more portable as workers change jobs.

Retirement researchers have long acknowledged the importance of the so-called “three legged stool” – of Social Security benefits, defined benefit pension income, and supplemental individual savings – in providing Americans the greatest opportunity to achieve financial security in retirement.²⁸ “Another way to encourage private sector defined benefit participation would be to incorporate employee contributions into these plans. As mentioned previously, most state and local defined benefit plans already are employee contributory, which helps ease the funding burden on employers somewhat.”²⁹

There have been many studies and proposals on reforming military retirement. “In 1985, the President’s Private-Sector Survey on Cost Control (the Grace Commission) recommended eliminating these annuity payments and initiating a payout of the retirement benefit to active-duty members beginning at age 60 or 62. The strongest retirement reform proposals provide opportunities for military personnel to earn a benefit that would be vested in a shorter number of years while reducing the annuity amount and age at which it is paid. Korb, Rothman and Hoffman propose a 401(k) style plan in which the Pentagon would contribute 16% of the member’s base pay annually into an account. The account would be transferrable and decrease the

number of veterans who leave service without any benefit while increasing the force management options to address the long-term fiscal challenges.”³⁰ To address the desire of Secretary Panetta to not affect current veterans, the authors propose a three-part transition to a 401(k) type retirement system. The first option offers military personnel with more than 10 years of service to have the option to remain in the current system or switch to the 401(k) type retirement. The second option offers personnel with less than 10 years of service the option of enrolling in the new 401(k) system or enrolling in a slightly modified version of the current pension system, which would vest at 10 years but provide slightly less retired pay (40 percent of base pay at 20 years, rather than 50 percent permitted under the current system and paying out at age 60). Finally, all new recruits would automatically enroll in the 401(k) system.³¹

Research shows that there is still a desire amongst Millennial workers for a defined benefit plan. The transition plan outlined above should include a defined benefit option. This additional option would allow new recruits to choose an option where a defined benefit could be paid as a lump sum or be deferred until the individual is 60. At this point it would be turned into a defined benefit annuity. This defined benefit annuity could be reduced in percentage and/or require a certain level of individual contribution. “Military personnel do not contribute a percentage of their salary to help pay for retirement benefits.”³² “Military retired pay and social security are not offset against each other; military retirees receive full Social Security benefits in addition to their retired pay.”³³ This annuity could be combined with the Social Security benefit to create a more comprehensive and manageable benefit. This option achieves the recommendations of reforms to the civilian sector retirement of third party sponsorship (the government),

creating a system for contribution and designing plans that are portable when workers change jobs.

The future view and outlook of the Millennials indicate that they would value a front-loaded payout of retirement benefits with a benefit that could be attained in shorter than 20 years. Utilizing systems that would be perceived as better than civilian systems but similar in function and dispersement would provide better security for the future for these soldiers at a reduced cost. The reduced cost would be gained by paying for the benefits in the near-term rather than committing to long-term defined benefits. Appropriate changes to the systems could stabilize the cost per person within the military while still incentivizing service. The stabilization of personnel costs is critical to shaping future military budgets to ensure the United States has an effective all-volunteer force for the future.

The military has shrunk to less than 1% of the United States population. The Millennials trend to represent even less with the forecasted military cutbacks and their propensity for military service. This increased uniqueness of service will emphasize more of a comparison of compensation with their peers in the non-military private and public sector. The non-monetary benefits of the military will continue to be a huge disparity with outside organizations. This will be a positive when recruiting military personnel and tough to measure. It is also because of these benefits, that total compensation will be difficult to measure. Indications are that pay is, and will continue to be, commensurate with non-military occupations. As discussed, this comparison should not be the driver for policy because it is all about the competitiveness and ability to recruit the right number and right people. The military will continue to offer an

opportunity to serve one's country in public service. There are also occupational and leadership opportunities that are, and will continue to be, unique to the military. The personnel who have the talent and desire to fulfill these jobs should be sought after and have incentivized to join. The benefits should not drive the future leaders that the military requires into service, but the benefits and incentives should not be a reason to drive them away either. Commensurate pay and family care focused benefits must be emphasized. The GI bill which grants money for education to service members and Post 9-11 GI bill which offers education benefits to those who have served on active duty after 9-11 that can be transferred to their dependents will continue to be a valued benefit by military members for themselves and for their families. This is a defined front-loaded benefit that meets the desire for education and has value for the nation as well. The other service benefits such as housing, commissary, exchange, and tax benefits are also front-loaded defined cost benefits that are attractive to the next generation who value the care of their families. These benefits improve the ability of the military members to care for their families and creates a positive community environment for families.

The establishment of the 20-year mark for retirement has many consequences. The first is that many personnel stay until the 20-year mark and immediately retire. In the 2010 document the Joint Operating Environment (JOE), the concern over rising compensation costs and retaining quality personnel in the military is addressed. The document refers to the success of commercial enterprises resizing their organizations by decreasing mid-level leaders through smart uses of technologies and by shifting responsibilities to lower levels. Using this model to reengineer military staffs to be more

agile, adaptive and smaller should be considered by the military. A key part of achieving this change is to stop military personnel from leaving at the height of their experience. “There are significant opportunities to retain these vital, hard-won skills of our military personnel beyond the current 20-year retirement timeline.”³⁴ There are analysts who feel new requirements of career officers are being crammed into a 20-year career. In April 2003, the Defense Transformation for the 21st Century Act proposed, for the first time, provisions to allow the services to lengthen the maximum years of service of general and flag officers and be more flexible in their assignments. “The effect of these provisions would be to prevent the mandatory retirement of skilled high-level officers who might otherwise want to stay on active duty; give DOD and the military services more flexibility in managing senior uniformed leadership of the services; allow generals and admirals to server longer tours of duty and minimize too-frequent rotation of assignments; and provide greater compensation incentives related to the greater lengths of service.”³⁵

By changing the 20-year vesting requirement, the career management of military personnel would gain flexibility to create a higher quality force. There are many factors that contribute to the retainability of the mid-career range - those in the 8-12 years of service range. There are many who are at the mid-point of their careers who are reluctant to leave the service because they do not want to miss out on obtaining the retirement benefit after 20 years. Additionally, leadership is apprehensive from separating marginal members during this time because of the fear of breaking an implicit contract with them. This situation has a negative effect on the quality of military members being retained. There will be always be members who leave the service in the

8-12 year range if they are not being challenged or if the rigors of the job become too taxing individually or on their family. Reforms to the retirement distribution process would allow members who no longer desire to serve to leave with some benefit of service and would allow the military the flexibility to make necessary personnel decisions devoid of the huge affects to the members' retirement.

The 20-year paradigm also hampers flexibility on force management when it comes to the management of career members. If the length of a military career is lengthened by eliminating the 20-year target, there are opportunities for personnel to broaden their experience further in each grade. The lengthening of the career view would allow for career broadening assignments within the promotion band which would create a more qualified individual at the next grade. Many times assignment lengths are compressed to ensure that the member can serve in all the positions necessary to obtain promotion. This frequently means that the member has insufficient time to master all of the tasks of a given assignment. The opportunity for a longer career window for career officers would enable longer assignments and less frequent rotations.³⁶ This would also provide an opportunity to allow families who choose to, to remain in the same location for a longer period of time. This shift presents an opportunity to change the force management that is currently in place to make it less arduous on personnel and families. As referenced earlier in this paper, the steady movement of families is referred to as the most arduous part of military life and the reason given to offer additional benefits. If this component of military life could be lessened and family-focused benefits emphasized, it provides an opportunity to make prudent changes to other fiscally draining benefits.

What is clear is that the retirement benefit is clearly out of touch with non-military occupations. In order to maintain trust and confidence with the public and to leverage the demographics of the Millennials and the numbers involved in future military service, modest changes to the retirement system should be made. The most rational changes are to change the distribution of the retirement benefit. The 20-year benefit should be modified. Plans that look at distributions prior to 20 that are portable are consistent with the values of the upcoming generations and commensurate with non-military organizations. The distribution plan should include potential to defer payment until 60 or 62 with the benefit converting to a defined benefit at that point. The Social Security benefit should be considered in this plan. Either the military member should contribute all along, same as non-military members, or the benefit should be incorporated with the military retirement at age 60 or 62. Finally, retirement benefits should require contributions from the military member throughout his career. This would assist with the amount of money that would become portable as well as lessen the pressure on the system. This would be commiserate with non-military members. The benefit for recruitment and retirement should be focused on near-term, front-loaded paid benefits.

Further research and data should be gathered to challenge or validate the 20-year paradigm. Challenging the 20-year paradigm provides an opportunity to reevaluate the military career progression. Methods to change the military career progressions over time to take advantage of a longer career window should be studied. The longer career lens would allow for career and experience broadening which would benefit senior leaders' ability to make strategic decisions. The longer career lens may also provide an opportunity to lessen the arduous life by reducing the frequency of family movements.

The viability and impacts of changing the current military promotion windows and force management approach to assignments which emphasizes continually changing duty stations should be investigated. A system where there is increased retirement benefit applied to length of service along with providing compensation incentives to our best senior members of the military while they continue to serve would retain our best leaders by incentivizing them to stay in rather than cash out because of an outdated retirement incentive. Another consequence of the 20-year retirement paradigm is that there are many who are unwilling to stay for a full 20 years, causing a loss of many talented people who are in the 8-12 year range and younger. The downside to the 20-year vesting requirement is that many veterans leave service with no benefit. Would implementing a retirement system that rewards service prior to the 20-year mark increase or decrease the retainability of the talent in the 8-12 year range? Would lessening the stress on families and members increase the number of career military members remaining on duty and contributing after the 20-year mark?

There should be a comprehensive approach to compensation and benefit reform. The components of pay, health care, active duty benefits, educational benefits as well as the factors of competitiveness and force management should be integrated and incorporated into any proposals to compensation or benefit reforms. An isolated focus on any one area would reduce the enduring effectiveness of any changes and create the possibility of nullifying positive outcomes when environmental changes occur. Focusing compensation and benefit incentives on the ability for them to be paid as front-loaded payments is critical to long-term reduction in personnel costs that are critical to our overall national and military goals. Leveraging the uniqueness of service coupled

with unique benefits that are attractive to the current and future generations will allow the military to competitively recruit and retain quality personnel. All pension-based retirement systems that have become cost-prohibitive are under reform. Public retirement employees, to which the military is to a degree, are under scrutiny because of the high cost and long-term insolvency of such programs. The military should consider leveraging cost saving retirement reform solutions in the public and private sectors and generational shifts to propose retirement reforms that provide options that increase the number of beneficiaries, increasing portability, require contributions and provide a lump sum payout or a defined benefit at 60. Maintaining public trust and support is critical to future funding of the military. Part of maintaining the public trust will be to offer compensation and benefits that are commensurate and proportionally better in the view of the public who fund all of it through their taxes. The current budgetary challenges to the military provide the impetus for significant reforms and the current demographics of current military members and recruits create an opportunity to move forward immediately.

Endnotes

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